Yannis Stournaras: Welcome speech - "Crisis and structural reforms"

Welcome speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the event "Crisis and structural reforms", organized on the occasion of the publication of the study on "Structural reforms in Greece during the crisis (2010-2014)", commissioned by the Bank of Greece and executed by ELIAMEP, Athens, 27 November 2018.

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It is my great pleasure to welcome you to today's event, where we will examine the key findings of the study on "Structural reforms in Greece during the crisis (2010–2014)", commissioned by the Bank of Greece and executed by ELIAMEP.

The study attempts to provide a well-documented assessment of the impact of reforms that Greece implemented during the first two adjustment programmes. In more detail, it provides an overview of the planned and adopted reforms, followed by an assessment of the Single Wage System i.e. the first attempt to create a long-overdue unified wage structure for public servants. It then explores the economic impact of selected product market reforms and examines the impact of labour market reforms on unemployment. It concludes with policy recommendations.

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During the crisis, Greece implemented a number of structural reforms that helped bridge the competitiveness gap and create a favourable investment environment. Reforms have been implemented in almost all areas of economic activity, and most importantly in the labour market, the pension system, healthcare, public and tax administration and the financial sector. It is worth noting that over the past several years, according to OECD, Greece ranks as the member country that had the highest response rate to reform recommendations, even more so when adjusting for the difficulty to undertake these reforms in a recessionary environment and in such a short time span.

Indeed, when embarking on the reforms, Greece faced two major challenges: (i) its economy was already in recession, whereas difficult reforms should be best undertaken during upswings [especially if they have adverse short-term effects]; and (ii) the timeframe envisaged for the implementation of significant reforms was very tight. Due to the complexity of these reforms, their spillover effects, and the stakeholder consultation, governments usually require many years of preparation to assess the potential impact of such reforms on the economy and choose the best possible policy instruments.

Moreover, prioritizing was not given sufficient consideration, resulting in a lack of focus in the reform agenda and a difficult relationship with stabilization policies. For example, strong emphasis was put on reducing fiscal deficits via tax increases while neglecting reforms to the tax administration, to support the fight against tax evasion and broaden the tax base, both of which are admittedly of utmost importance in the case of Greece. Last but not least, sequencing of reforms played a crucial role, in the sense that labour market reforms were prioritized over product and services market reforms, contrary to analysis that suggested that reforms in product markets tend to facilitate or drive reforms in the labour market[1].

According to OECD, the existing reforms, along with those envisaged in the programme, are expected to lead to a cumulative increase in real GDP of around 13% within a decade. This effect mainly works via an increase in the total factor productivity.

However, there is a fundamental inconsistency relating to time when it comes to the cost-benefit analysis of reform measures: cost is immediate, whereas benefits are only realized in the long term.

Thus, the time horizon over which reforms yield measurable outcomes usually exceeds a government's time horizon. This is a major disincentive for reforms internationally and has played a major role in Greece in recent years. This also explains why some reforms, although legislated, were effectively not fully implemented. In addition, the cost is beared by few but the benefits are reaped by many. However, those few that are directly affected from a reform are vocal in their opposition, while those who benefit in the long run do not advocate the benefits with the same tenacity. These opposing forces may explain the inertia of the status quo.

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Greece completed the financial support and adjustment programmes with a favourable legacy of adopted reforms. And although many things have changed, several reforms still need to be reinforced, given the poor initial conditions. In other words, the performance has been impressive in terms of first differences but, given the initial low level of structural competitiveness, Greece still lags behind its peers. Hence, the reform process must be pursued until the final goal is achieved, i.e. a competitive and dynamic economy that is able to stand on its own two feet. Political and social awareness that the Greek economy cannot return to the previous status quo is widely accepted, after the implementation of three adjustment programmes. I hope that this will suffice to bring about sustained support to reforms among Greek policy makers and Greek citizens.

Before giving the floor to the distinguished speakers, please allow me to thank the researchers who have worked for this study, ELIAMEP and its President, Professor Loukas Tsoukalis, and last but certainly not least, Professor Jean Pisany Ferry, who is the keynote speaker today.

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[1] See, among other, Blanchard and Giavazzi 2003, Boeri 2005,Fiori et al. 2007.